HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2018 AND 2017

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HOLTHOUSE | CARLIN | VAN TRIGT LLP

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Ventura County, Inc.:

We have audited the accompanying financial statements of Habitat for Humanity of Ventura County, Inc., a nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Ventura County, Inc. as of June 30, 2018 and 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Holthouse Carlin & Van Trigt LLP

Westlake Village, California
January 11, 2019

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.

(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30,	2018	2017
Assets		
Cash and cash equivalents	$ 897,210	$ 187,095
Grants receivable	151,017	102,968
Prepaid expenses	44,410	47,321
Mortgage notes receivable, net of unamortized discount	1,968,954	1,436,621
Restricted cash - homeowner impound funds	45,092	76,058
Construction-in-progress	1,399,521	297,888
Homes held for sale	1,122,078	2,093,478
Property and equipment, net	11,031	15,040
Deposits and other assets	93,990	81,978
Total assets	$ 5,733,303	$ 4,338,447
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 117,615	$ 96,572
Construction costs payable	60,560	-
Notes payable	517,053	-
Deferred revenue	50,500	30,150
Deposits and impound liability	293,185	268,342
Total liabilities	1,038,913	395,064
Net assets		
Unrestricted	4,386,744	3,784,198
Temporarily restricted	307,646	159,185
Total net assets	4,694,390	3,943,383
Total liabilities and net assets	$ 5,733,303	$ 4,338,447

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30,			2018			2017
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support						
Government contracts and grants	$ 697,675	$ -	$ 697,675	$ 286,052	$ -	$ 286,052
Contributions (corporate, foundation and individual)	633,168	287,486	920,654	364,510	130,921	495,431
ReStore sales	1,308,097	-	1,308,097	1,168,109	-	1,168,109
Sale of homes	1,003,000	-	1,003,000	1,003,798	-	1,003,798
In-kind contributions	106,505	-	106,505	20,539	-	20,539
Special events, net	191,738	-	191,738	107,710	-	107,710
Mortgage notes discount amortization gain	72,942	-	72,942	35,932	-	35,932
Other revenue	20,295	-	20,295	97,414	-	97,414
Total revenue and support	4,033,420	287,486	4,320,906	3,084,064	130,921	3,214,985
Net assets released from restrictions	139,025	(139,025)	-	88,269	(88,269)	-
Expenses						
Program services						
Housing	1,781,715	-	1,781,715	1,544,179	-	1,544,179
Preserve a Home	517,215	-	517,215	438,983	-	438,983
ReStore	952,343	-	952,343	965,455	-	965,455
Supporting services						
Management and general	178,050	-	178,050	168,616	-	168,616
Fundraising	140,576	-	140,576	108,823	-	108,823
Total expenses	3,569,899	-	3,569,899	3,226,056	-	3,226,056
Changes in net assets	602,546	148,461	751,007	(53,723)	42,652	(11,071)
Net assets, beginning of year	3,784,198	159,185	3,943,383	3,837,921	116,533	3,954,454
Net assets, end of year	$ 4,386,744	$ 307,646	$ 4,694,390	$ 3,784,198	$ 159,185	$ 3,943,383

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services					
	Housing	Preserve a Home	ReStore	Management and General	Fundraising	Total
Cost of homes sold	$ 1,221,400	$ -	$ -	$ -	$ -	$ 1,221,400
Compensation and benefits	96,129	189,624	429,474	78,807	119,363	913,397
Mortgage notes discount amortization loss	386,246	-	-	-	-	386,246
Rent	9,688	9,688	304,304	11,624	3,875	339,179
Preserve a Home costs	-	239,609	-	-	-	239,609
Office expense	7,263	7,023	52,505	34,620	7,780	109,191
Professional fees	11,173	33,042	12,387	27,803	-	84,405
Insurance	16,213	13,407	26,700	4,222	1,212	61,754
HFHI tithes and fees	16,900	16,548	16,548	-	-	49,996
ReStore cost of goods	-	-	45,269	-	-	45,269
Vehicles	1,987	6,072	29,059	-	283	37,401
Bank fees and charges	3,250	-	25,940	1,994	2,852	34,036
Marketing and advertising	510	615	4,495	8,235	3,816	17,671
Volunteer and other expenses	9,709	305	1,731	3,151	576	15,472
Repairs and maintenance	1,158	1,158	3,901	1,738	579	8,534
Depreciation	-	-	-	4,009	-	4,009
Travel and seminars	89	124	30	1,847	240	2,330
Total expenses	$ 1,781,715	$ 517,215	$ 952,343	$ 178,050	$ 140,576	$ 3,569,899

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services					
	Housing	**Preserve a Home**	**ReStore**	**Management and General**	**Fundraising**	**Total**
Cost of homes sold	$ 987,365	$ -	$ -	$ -	$ -	$ 987,365
Compensation and benefits	100,339	194,294	416,697	81,044	88,230	880,604
Mortgage notes discount amortization loss	386,112	-	-	-	-	386,112
Rent	8,694	8,694	330,650	10,433	3,478	361,949
Preserve a Home costs	74	146,924	30	89	30	147,147
Office expense	7,452	6,006	52,377	21,450	4,708	91,993
Professional fees	8,022	44,130	9,796	20,054	-	82,002
Insurance	15,900	13,098	24,781	4,810	686	59,275
HFHI tithes and fees	14,034	14,313	14,313	-	340	43,000
ReStore cost of goods	-	-	40,484	-	-	40,484
Vehicles	7,359	4,723	40,427	-	223	52,732
Bank fees and charges	12	-	21,404	7,561	2,132	31,109
Marketing and advertising	1,750	1,746	5,247	1,969	2,130	12,842
Volunteer and other expenses	3,241	1,970	1,862	1,934	1,672	10,679
Repairs and maintenance	3,068	3,011	7,341	4,516	1,505	19,441
Depreciation	-	-	-	9,513	-	9,513
Travel and seminars	757	74	46	5,243	3,689	9,809
Total expenses	$ 1,544,179	$ 438,983	$ 965,455	$ 168,616	$ 108,823	$ 3,226,056

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF VENTURA COUNTY, INC.
(A NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,	2018	2017
Cash flows from operating activities		
Changes in net assets	$ 751,007	$ (11,071)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Mortgage notes discount amortization gain	(72,942)	(35,932)
Mortgage notes discount amortization loss	386,246	386,112
Depreciation expense	4,009	9,513
Gain on sale of property and equipment	-	(5,617)
Changes in operating assets and liabilities		
Grants receivable	(48,049)	(22,764)
Prepaid expenses	2,911	(34,715)
Mortgage notes receivable	(845,637)	(871,871)
Restricted cash - homeowner impound funds	30,966	(35,007)
Construction-in-progress	(1,101,633)	366,884
Homes held for sale	971,400	28,601
Deposits and other assets	(12,012)	4,669
Accounts payable and accrued liabilities	21,043	(7,959)
Construction costs payable	60,560	-
Deferred revenue	20,350	25,727
Deposits and impound liability	24,843	58,525
Net cash provided by (used in) operating activities	193,062	(144,905)
Cash flows from investing activities		
Sale of property and equipment	-	5,750
Cash provided by investing activities	-	5,750
Cash flows from financing activities		
Notes payable	517,053	-
Proceeds from line-of-credit	200,000	-
Payments on line-of-credit	(200,000)	-
Net cash provided by financing activities	517,053	-
Net change in cash and cash equivalents	710,115	(139,155)
Cash and cash equivalents, beginning of year	187,095	326,250
Cash and cash equivalents, end of year	$ 897,210	$ 187,095
Cash paid for the following:		
Interest	$ 2,194	$ 1,291

See accompanying notes to financial statements.

1. ORGANIZATION AND NATURE OF ACTIVITIES

Habitat for Humanity of Ventura County, Inc. (the “Organization” or “Habitat”) is a nonprofit public benefit corporation which was incorporated on June 5, 1986. Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a nondenominational, Christian, not-for-profit organization whose purpose is to create decent, affordable housing for families in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, and prayer support, Habitat is primarily and directly responsible for its own operations.

Description of Programs Through the Housing program, the Family Selection Committee recommends qualified families to the Board of Directors based upon income, current housing need, and willingness to partner with Habitat. Habitat’s policy is that each family is generally required to complete a minimum of 500 hours of “sweat equity” (voluntary labor). Habitat partners with selected families, volunteers provide most of the labor, and government agencies and donors provide funds, materials and land to build Habitat homes. Finished affordable homes are then sold to selected/approved families. The mortgages for all homes sold are interest free, with terms and monthly payments that are affordable for the homeowner.

The Habitat Home Repair (formerly Preserve a Home) program provides low-income homeowners much needed repair service. Since Habitat launched this program in May 2011, more than 129 home preservations have been completed in Ventura County (Fillmore, Camarillo, Oxnard, Piru, Simi Valley, Thousand Oaks, and Ventura). Homeowner and family members contribute sweat equity hours, when physically able, in partnership with Habitat staff and volunteers.

In addition, Habitat operates two ReStores, discount home improvement centers that accept and resell new and gently used building materials and furniture to the public at a fraction of their retail price. ReStore reduces the amount of usable building materials going into local landfills through reuse. All items sold through ReStore are received through donations. The proceeds from ReStore operations are used to further Habitat’s mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Revenues, expenses, gains, losses and net assets are classified in the financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein, are classified and reported as follows:

- ***Unrestricted net assets*** Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the Organization.

- ***Temporarily restricted net assets*** Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

- ***Permanently restricted net assets*** Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. As of June 30, 2018 and 2017, the Organization had no permanently restricted net assets.

In addition, the Organization reports all of its expenses in the unrestricted fund, regardless of the source of the funds for the expenditures.

Cash and Cash Equivalents The Organization considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash – Homeowner Impound Funds A loan servicer (Note 5) and Habitat service the mortgages on homes sold by Habitat. As part of the process, the Organization collects monthly payments for property taxes and insurance from homeowners, along with the monthly mortgage payments. The homeowner impound balance represents amounts collected by the loan servicer or Habitat for property taxes and insurance that has not yet been paid to the county tax collector or insurance providers.

Property and Equipment Property and equipment includes leasehold improvements and equipment at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

The estimated useful lives of the assets are as follows:

Description	**Life**
Computer equipment	5 years
Leasehold improvements	5 years
Machinery and equipment	7 years
Vehicles	5 years

The Organization capitalizes expenditures or betterments that materially increase asset lives and charges ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations. Abandoned projects are expensed when management determines the project is not feasible.

Management reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. When evaluating recoverability, management considers future undiscounted cash flows estimated to be generated by the property including any estimated proceeds from the eventual disposition. In the event these accumulated cash flows are less than the carrying amount of the property, the Organization recognizes an impairment loss equal to the excess of the carrying amount over the estimated fair value of the property. No impairment losses were recognized in 2018 or 2017.

Construction-in-progress Costs incurred to build homes are recorded as construction-in-progress until the home is available to be sold. Consistent with Habitat's mission, homes are constructed to build affordable housing for low-income families. Certain costs of construction are directly expensed and absorbed by Habitat and included with cost of sales on the statements of functional expense.

Habitat has established a policy regarding both donated and purchased land for use in the construction of homes. Donated land is recorded on Habitat's books at the appraised value at the date of the donation. Land donated or purchased with donated funds is adjusted to a net realizable value of zero since the sales price of homes is restricted by donors and lenders.

Habitat incurs costs in connection with properties it is considering for development as well as costs associated with properties in the initial state of development. Habitat capitalizes these costs until the project moves forward or charges the costs to operations at the time it is determined the project is not feasible. For the years ended June 30, 2018 and 2017, Habitat capitalized predevelopment costs of $187,362 and $217,056, respectively, which are included in construction-in-progress in the accompanying statements of financial position.

Homes Held for Sale Homes held for sale are stated at the lower of cost or net realizable value (estimated fair value, less selling costs) and include initial acquisition cost, direct rehabilitation/construction costs, real estate taxes and interest. Interest costs are capitalized until construction is substantially complete. For the year ended June 30, 2018, the Organization capitalized $11,667 in interest. For the year ended June 30, 2017, the Organization did not capitalize any interest. Selling costs are expensed as incurred.

Upon completion, the value of the home is reclassified from construction-in-progress to homes held for sale. Approved homeowners are allowed to reside in the homes prior to the home sale being finalized. Homeowners pay Habitat a monthly fee based on the anticipated sales price until the sale is completed, at which time payments made by the homeowner will be applied to the purchase of the home.

Mortgage Notes Receivable Mortgage notes receivable consist of residential loans made to qualified borrowers, secured by real estate, that are payable in monthly installments over the life of the mortgage notes. These non-interest bearing notes have been discounted based upon prevailing market rates for low-income housing at inception as calculated by Habitat. The discount is amortized using the effective interest method over the lives of the mortgage notes. Based on management's analysis and history of the borrowers, Habitat believes there is no need for an allowance for uncollectible mortgage notes receivable.

In addition, homes may have a second trust deed in favor of Habitat to ensure compliance with the terms of the Organization's homeownership program. These mortgage notes are referred to as "silent". These silent mortgage notes receivable bear no interest and are forgiven if the homeowner lives in the home for the required period of time and complies with all other covenants and restrictions per the deed of trust. Accordingly, the Organization does not record a value for these silent mortgage notes receivable as it is unlikely the notes will be collected.

Habitat may in the future sell a portion of its loans or future loans provided as homes are built. Due to the uncertainty of the timing and amount of any future sales of mortgage notes receivable, any gain or loss resulting from such transactions will be recorded when the transactions are settled or when amounts can be reasonably estimated.

Revenue and Support Habitat receives grant funding from federal, state and local agencies for home development. Revenues from such grants are recognized as they are earned through expenditure in accordance with agreements. Any funds received in advance of the expenditure being incurred are recorded as deferred revenue.

Contributions are recognized at the earlier of the date of receipt of funds or the date of a formal, unconditional pledge from known donors. Contributions or unconditional promises to give with payments due in future periods are discounted to present value and reported as temporarily restricted revenue. Any funds received in advance of a condition being met are recorded as temporarily restricted revenues.

Revenue and cost of revenue from home sales are recorded when title passes to eligible home buyers. Home sales are recorded at cash received or the gross mortgage plus down payment received when financed by the homeowner. Cost of homes sold consists of capitalized home construction costs and other related costs associated with the sale of the home. An offsetting mortgage notes discount loss is recorded at the time of sale to report the difference between the non-interest bearing note receivable and the present value of the discounted note receivable.

ReStore revenue consists of cash receipts from the sale of donated goods and is recognized at point of sale.

Special events revenue is presented on the statements of activities and changes in net assets, net of the event related expenses. Revenues from special events include individual and corporate contributions and are recognized when the event is held. The related expenses are recognized on the date of the event. The contributions received for special events scheduled to occur after year-end are recorded as deferred revenue and recognized as revenue on the date of the event. For the year ended June 30, 2018, revenue from special events was $248,443 and the related expense was $56,705. For the year ended June 30, 2017, revenue from special events was $151,229 and the related expense was $43,519.

Donated Goods and Services A substantial number of volunteers, including family homebuyer voluntary labor (sweat equity) have made significant contributions of their time and expertise to Habitat's program and supporting services, the total value of which cannot be easily calculated or estimated. These volunteer services have not been reflected in the accompanying financial statements because the volunteer services provided do not meet the criteria necessary for recognition under GAAP. Donated labor for professional construction services are valued at the prevailing rate for the pro-bono services received.

Donated building materials and facilities are recorded at fair value. Goods and materials donated to ReStore are deemed to have no determinable value at the time of donation. Accordingly, donated inventory is not recorded prior to being sold.

Functional Expenses The costs of providing the Organization's programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated to direct program services or management and general and fundraising expense. The functional classifications are defined as follows:

- Direct program expenses consist of costs incurred in connection with the Organization's neighborhood revitalization activities, which includes home repairs for individuals, building homes, and providing loans to program participants. Program services also include the operations of the discount home improvement retail outlet ReStores.

- Management and general expenses consist of costs incurred in connection with the overall activities of the Organization, which are not allocable to another functional expense category.

- Fundraising expenses consist of costs incurred in connection with activities related to obtaining grants and activities designed to generate revenue.

Income Taxes The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) under the California Revenue and Taxation Code. In addition, the Organization does not have any income which would be subject to unrelated business income taxes, as defined. Accordingly, there is no provision for income taxes in these financial statements and the Organization has no other tax positions which must be considered for disclosure. The Organization is required to file tax returns with the Internal Revenue Service (IRS) and other taxing authorities. With few exceptions, the Organization is no longer subject to income tax examinations by tax authorities for years before 2013. No examinations are currently pending.

Use of Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

Concentrations of Business and Credit Risk The Organization's cash and cash equivalents are maintained in various financial institutions. The Organization has exposure to credit risk to the extent cash and cash equivalents exceed amounts covered by federal deposit insurance. The Organization believes that its credit risk is not significant.

Habitat is vulnerable to the inherent risks associated with voluntary labor and with revenue that is substantially dependent on public support and contributions. The continued growth and operations are dependent on the successful achievement of long-term revenue raising goals. In addition, increased developments costs, supply and labor shortages, entitlement delays and other factors may negatively affect future results.

Reclassifications Certain reclassifications were made to the 2017 financial statements to conform to the presentation of the 2018 financial statements.

New Accounting Pronouncements In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective for annual reporting periods beginning after December 15, 2018, and permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted. In June 2018, the FASB issued ASU 2018-08 which clarified the scope and accounting guidance for contributions received and contributions made for not-for-profit entities (ASC 958). The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability, measured on a discounted basis, on the statements of financial position for all leases with terms greater than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities and changes in net assets (deficit). A modified retrospective transition approach is required for capital and operating leases existing at the date of adoption, with certain practical expedients available. The Organization is currently in the process of evaluating the impact that the adoption of ASU 2016-02 on July 1, 2020 will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The amendments in this update make improvements to the net asset classification requirements and the information presented in the not-for-profit entity's financial statements including specific disclosure requirements about its liquidity and availability of resources, expenses and investment returns and cash flows. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-14 on July 1, 2019 will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to provide classification guidance for certain transactions. ASU 2016-15 is effective for private entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU 2016-15 on July 1, 2019 will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*, which changes how restricted cash is presented on the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. For private entities, the guidance in ASU 2016-18 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Organization has not yet determined the impact that the adoption of ASU 2016-18 on July 1, 2019 will have on its financial statements.

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

As of June 30,	2018	2017
Leasehold improvements	$ 20,609	$ 20,609
Vehicles	70,036	70,036
Computer equipment	14,197	14,197
Total property and equipment	104,842	104,842
Less: accumulated depreciation	(93,811)	(89,802)
Total property and equipment, net	$ 11,031	$ 15,040

Depreciation expense was $4,009 and $9,513 for the years ended June 30, 2018 and 2017, respectively.

4. MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable range from 25-30 years and represent amounts due from the purchasers of homes constructed by Habitat that are secured by a deed of trust and payable in monthly installments over the term of the note. At the time of sale, a non-interest bearing mortgage loan, secured by a first trust deed and the related discount for interest are recorded. As of June 30, 2018 and 2017, Habitat's non-interest bearing mortgage loans outstanding were discounted at an imputed interest rate of 4%.

Mortgages notes receivable consisted of the following:

As of June 30,	2018	2017
Mortgage loans, which bear no interest, payable in monthly installments ranging from approximately $250-$700, secured by first deed of trusts.	$ 3,135,314	$ 2,289,677
Less: unamortized discount to net present value	(1,166,360)	(853,056)
Mortgage notes receivable, net of discounts	1,968,954	1,436,621

Scheduled mortgage notes receivable collections are as follows:

For the Years Ending June 30,	
2019	$ 148,776
2020	148,776
2021	148,776
2022	148,776
2023	148,776
Thereafter	2,391,434
Total	$ 3,135,314

In July 2017, Habitat entered into a professional service agreement with AmeriNat to service a majority of the mortgage notes receivable owned by Habitat. Per the terms of the service agreement, AmeriNat will collect the monthly mortgage payments in accordance with the loan documents. All funds will be maintained in an FDIC insured banking institution in a custodial account for the benefit of Habitat and the borrowers as applicable.

Habitat sold a portfolio of mortgage notes receivable to Pacific Western Bank in 2011, but remained the servicer. The portfolio servicing was transferred to AmeriNat in July 2017. Each month, Habitat remits the scheduled total monthly payments to Pacific Western based upon the terms of the original purchase agreement. In the event that collections are delinquent, previously sold loans may be substituted with a different loan held by Habitat based on agreement with Pacific Western Bank. To date, Habitat has not experienced any losses on the loans sold.

5. LINE-OF-CREDIT

The Organization maintains a line-of-credit agreement with Montecito Bank (the “Bank”). The line-of-credit agreement was amended on May 5, 2017 to provide for maximum borrowings of $325,000. On May 5, 2017, the line-of-credit agreement was amended to extend the maturity date to May 5, 2019.

The line-of-credit bears interest at the Bank’s prime rate (as defined), plus 1.0% per annum, with a floor of 5.25%. At June 30, 2018 and 2017, the interest rate was 6.00% and 5.25% per annum, respectively. Interest expense on the line-of-credit amounted to $2,194 for the year ended June 30, 2018. Interest expense on the line-of-credit amounted to zero for the year ended June 30, 2017.

Borrowings under the line-of-credit facility are subject to certain covenants and restrictions on indebtedness, financial guarantees, and other related items. As of June 30, 2018, and 2017, there was no outstanding balance on the line-of-credit and the Organization was in compliance with all covenants.

6. NOTES PAYABLE

On December 5, 2017, the Organization entered into a secured promissory note with the Ventura County Housing Trust Fund (“VCHTF”) for $500,000 with a maturity date of June 5, 2019. Per the terms of the agreement, the Organization funds are to be used to construct six single-family residences on 5 parcels of property in Oxnard, California (“Oxnard Project”). As of June 30, 2018, the balance of the promissory note was $500,000. The promissory note bears interest at 4.0% per annum until the note is paid in full. Interest capitalized to Construction-in-progress on the promissory note amounted to $11,667 for the year ended June 30, 2018.

On May 10, 2018, the Organization entered into a secured promissory note with the City of Camarillo (“City”) for $250,000, to be forgiven upon issuance of certificate of completion. Per the terms of the agreement, the Organization funds are to be used to construct two single-family residences on parcels of property in Camarillo, California. As of June 30, 2018, the balance of the forgivable note was $17,053. The forgivable note bears 0% interest. The Organization has the option to purchase the land for $1 upon issuance of certificate of completion.

7. RELATED PARTY TRANSACTIONS

Habitat for Humanity International Habitat annually remits a tithe, based on its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Donations to Habitat International were $24,996 and $18,000 for the years ended June 30, 2018 and 2017, respectively. In addition, Habitat paid a stewardship fee of $25,000 to Habitat International for each of the years ended June 30, 2018 and 2017.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

As of June 30,	2018	2017
Home sponsorship	$ 135,129	$ 139,025
Endowment	20,160	20,160
Restricted donations	152,357	-
Total temporarily restricted net assets	$ 307,646	$ 159,185

9. LEASE OBLIGATIONS, COMMITMENTS, AND CONTINGENCIES

Operating Leases Habitat leases office and warehouse/retail space, effective September 2015 through August 2020, for its Oxnard location. Monthly lease payments are approximately $12,000. Habitat is additionally scheduled to pay a proportionate share of operating expenses.

Habitat leases retail space in Simi Valley, month to month, with a 60-day option to terminate by either party with written notice. Monthly lease payments are approximately $15,000. Habitat is additionally scheduled to pay a proportionate share of operating expenses.

Future minimum lease payments that have initial or remaining lease terms in excess of one year are as follows:

For the Years Ending June 30,	Amount
2019	$ 151,788
2020	151,788
2021	25,298
Total	$ 328,874

Government Grants Certain grants have been funded by agreements with local city agencies and may be subject to examination of records by the awarding agencies. In July 2016, Habitat was awarded a grant of $556,772 by the City of Oxnard for the Oxnard Project. Habitat broke ground on development in August 2017 and fully expended the grant by June 30, 2018. Unless and until such examinations have been completed, a contingency exists that Habitat could be obligated to refund amounts received in excess of allowable costs. However, management believes that no material liability will result from such audits, should they occur. No examinations are currently pending.

Litigation Habitat is subject to lawsuits and claims which arise out of the normal course of its activities. Based upon the opinion of legal counsel, management believes the disposition of any and all such actions of which it is aware will not have a material effect on Habitat's financial position or changes in the net assets of the Organization.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events that have occurred through the independent auditor's report date, which is the date that the financial statements were available to be issued and determined that there were no subsequent events or transactions that required recognition or disclosure in the financial statements.